LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7482 **DATE PREPARED:** Mar 30, 2001
BILL NUMBER: SB 199 **BILL AMENDED:** Mar 29, 2001

SUBJECT: Retirement and Severance; Local Option Income Tax for Education.

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FUNDS AFFECTED: **X** **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: (Amended) *Retirement and Severance*- This bill provides that if a school corporation establishes after June 30, 2001, a retirement or severance plan or enters into any contract provisions that: (1) will increase the benefit or the unfunded liability under any retirement of severance provisions that will require the school corporation to pay post-retirement or severance benefits to employees of the school corporation, the school corporation must actuarially fund the post-retirement or severance benefits.

It permits a school corporation to appeal to the State Board of Tax Commissioners for an excessive General Fund property tax levy to fund increased employee health insurance costs.

It authorizes school corporations to issue bonds to implement solutions to contractual retirement or severance liability as it existed on June 30, 1998. It provides that those school corporations may issue bonds for this purpose only one time and that the bonds must be issued before December 31, 2003. It requires a reduction in property tax levies for the school's capital projects fund, transportation fund, or art association and historical society funds to offset the debt service levy needed.

Establishment of Local Option Income Tax for Education- It allows a school corporation to adopt a local option income tax for education (LOITE). It provides that the tax applies to individuals (based on the adjusted gross income of individual taxpayers) and to corporations (based on the apportioned supplemental net income of corporations) that have net income for the taxable year.

It provides that the tax may be imposed at a rate of not more than 0.25%. It provides that a school corporation may use the tax revenue only for the purpose of making employer contributions to the Indiana State Teachers' Retirement Fund (TRF) on behalf of the school corporation's employees who are members of that fund.

It specifies that the county auditor shall each year reduce the General Fund property tax levy of a school corporation receiving a distribution of LOITE by an amount equal to the amount of the distribution.

Health Insurance and Retirement Benefit Fund- It provides that a school corporation may establish a Health Insurance and Retirement Benefit Fund. It provides that a school corporation may impose a property tax levy for its Health Insurance and Retirement Benefit Fund equal to the sum of: (1) if the school corporation has not imposed its maximum Capital Projects Fund rate, the amount that would be raised by a levy of up to eight and one-third cents of unused capital projects rate; (2) the difference between the school corporation's maximum Transportation Fund levy and the Transportation Fund levy actually imposed by the school corporation for the year; and (3) the difference between the school corporation's Maximum Art Association Fund and Historical Society Fund levies minus the levies actually imposed for the year for the school corporation's Art Association Fund and Historical Society Fund. It provides that a school corporation may use money in a Health Insurance and Retirement Benefit Fund only for the purposes of paying employee health insurance costs and benefits under a retirement or a severance plan established by the school corporation.

Effective Date: (Amended) Upon Passage; July 1, 2001; December 31, 2003.

Explanation of State Expenditures: (Revised) *Establishment of Local Option Income Tax for Education*- The administration, auditing, and collection of the individual and corporate LOITE would result in an increased administrative cost to the Department of State Revenue.

Health Insurance Levy Appeal - Local schools paid $532.5 M in group insurance, health, life, and accident insurance for FY 2000. Health insurance is the major portion of group insurance. Assuming that health insurance is about 80% of the group insurance cost, the health insurance costs would have been about $426 M for FY 2000. The bill allows an appeal if the health insurance cost increase is a result of:

1. Increased costs due to an increase in enrollment.
2. Increased costs due to an increase in premiums that is not due to a change in the program design.

Year	Group Insurance	Est Health Insurance (80% of Group Insurance)	Increase	% Increase
FY 2000	$532,537,381	$426,029,905	$46,831,528	12.4%
FY 1999	$473,997,971	$379,198,377	$25,469,218	7.2%
FY 1998	$442,161,448	$353,729,158	$26,022,259	7.9%
FY 1997	$409,633,624	$327,706,899	$30,527,226	10.3%
FY 1996	$371,474,591	$297,179,673		

Based on increases for previous years, about 9.44% over the last four years, the *maximum* dollar amount of appeals would be about $40.2 M the first year.

The state's expense for property tax replacement credits (PTRC) could be increased under this bill. PTRC is paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any additional PTRC expenditures would ultimately come from the General Fund.

The impact on the Property Tax Replacement Fund could be a ***maximum*** of $8 M per year based on prior experience.

The actual fiscal impact depends on the number and dollar amount of appeals and the amount of those appeals that are granted by the State Board of Tax Commissioners.

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) *Retirement and Severance*- Schools would be required to actuarially fund any new or increased retirement or severance benefits. The impact would depend on the number of new or increased retirement or severance benefits granted by schools in the future.

Funding for the bill would be from existing revenue sources.

Background : About 289 of the 294 school corporations have some severance and or early retirement benefits provision as part of the school's contract. Approximately 50 are currently funded on an actuarial basis. Certified staff salaries for the 1999-2000 school year were about $3.0 B. Each 1% of payroll required to fund the benefits would cost schools about $30 M. The actual cost would depend on the benefits granted by the school corporation.

The maximum severance benefits range between $4,200 and $103,075 with the average being $18,338 per teacher.

The maximum early retirement benefits range between $15,000 and $205,724 with the average being $69,855 per teacher.

During CY 2000 local schools had general fund expenditures of $163 M, a 14.7% from CY 1999, on severance and early retirement benefits. The present value of the benefits over the next 10 years is about $1.5B.

Explanation of Local Revenues: (Revised) *Establishment of Local Option Income Tax for Education*- School corporations would be allowed to establish a LOITE at a rate of not more than 0.25% via the authority to adopt ordinances which either impose, rescind, increase, or decrease LOITE taxes. (A LOITE imposed by a school corporation would remain in effect until rescinded by that school corporation.)

LOITE RATES

School corporations would be allowed to impose a LOITE on individuals at a rate of not more than 0.25% based on the adjusted gross income (AGI) of the respective individual taxpayer.

In addition, school corporations would be allowed to impose a LOITE on corporations at a rate of no more than 0.25% based on the apportioned supplemental net income of the respective corporation. (Apportioned net income for each corporation would be calculated by multiplying the total supplemental net income for that corporation by the ratio of the corporation's assessed value in the district to the corporation's total statewide assessed value).

School corporations would be required to adopt both the individual LOITE and the corporate LOITE at identical rates.

LOITE REVENUE

The impact of this bill would depend upon local action. This analysis assumes that **all** 294 school corporations would adopt a LOITE , and that all appropriate ordinances would be adopted. The following numbers estimate a **total statewide impact** as a result of this bill, and are based on the December 19, 2000, Revenue Forecast.

Individual LOITE- A 0.25% individual LOITE would raise approximately $157 M for ½ of the 2002 school year (January 2002 to July 2002) and approximately $337 M for the 2003 school year (July 2002 to June 2003).

Corporate LOITE- A 0.25% corporate LOITE would raise approximately $10.5 M for ½ of the 2002 school year (January 2002 to July 2002) and approximately $21.2 M for the 2003 school year (July 2002 to June 2003).

This analysis also assumes that school corporations would adopt a LOITE as soon as possible. (This would mean an adoption of the ordinance by May 1, 2001, with the tax becoming effective on the date of July 1, 2001, resulting in the first distribution to school corporations in CY 2002.)

USE OF LOITE REVENUE

This bill would require that revenues from a school corporation's LOITE be deposited into a special account within the state General Fund, and then distributed to the school corporation not more than 30 days after the tax is deposited into the school corporation's special account. Once received, the school corporation would be allowed to utilize distributions solely for the purpose of making employer contributions to TRF (on behalf of the school corporation's member employees).

STATE PROPERTY TAX REPLACEMENT CREDITS

This bill would require that the 20% state property tax replacement credit provided through the state Property Tax Replacement Fund not be affected by this proposal. (LOITE distributions would not reduce the total county property tax levy used to compute state property tax replacement credits.) The distributions would be considered as part of a school corporation's General Fund property tax levy for purposes of fixing the school corporation's budget and for calculation of the state tuition support funding formula.

Any LOITE distributions would result in decreased property tax rates and therefore smaller property tax bills for taxpayers. (The county auditor would be required to reduce the General Fund levy of a school corporation receiving LOITE distributions.)

ELDERLY OR DISABLED CREDIT

This bill would stipulate that elderly and disabled persons be entitled to credits against their LOITE similar to the credits available for individual income taxes. The credit for the LOITE would equal the lesser of the following:

Elderly or Disabled Credit * (LOITE rate/.15); or

the amount of LOITE actually imposed on the individual taxpayer and the individual taxpayer's spouse. The impact of these credits would vary by district.

Total statewide elderly credits for 1997 and 1998 were $7,322,398 and $7,082,998 respectively.

Health Insurance and Retirement Benefit - The bill would allow schools to fund health insurance, severance benefits, and retirement benefits by reductions in the corporation's transportation, capital project, art association, and historical society funds. The approximate bond payments of a $1.5 B bond for severance and early retirement benefits over 20 years at 6% interest would be about $130 M. The total amount of the bonds cannot exceed 2% of the total assessed valuation of property in the school. In addition the new Health Insurance and Retirement Benefit fund would generate about $27 M annually. The impacts would be partially offset by reduction in the corporation's transportation, capital project, art association, and historical society funds.

State Agencies Affected: Department of State Revenue; State Board of Tax Commissioners.

Local Agencies Affected: Local School Corporations; County Auditors; County Treasurers.

Information Sources: School Boards Association; December 19, 2000, Revenue Forecast; Department of State Revenue.